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WESTERN EUROPE DIVISION  
OFFICE OF REPORTS AND ESTIMATES  
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

DIVISION WEEKLY

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WESTERN EUROPE DIVISION

WEEKLY SUMMARY

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For week ending  
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SWITZERLAND

- B Switzerland's desire for special terms as a condition for joining the General Agreement on Tariffs and Trade (GATT) stems from security as well as from commercial considerations. Although the Swiss have stressed their difficulties with respect to luxury exports in asking for special conditions,

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their fundamental concern is probably the fear that strict adherence to the GATT would increase agricultural imports enough to jeopardize agricultural production in Switzerland. For security reasons, Switzerland desires to maintain agricultural production at its present level as a means of mitigating the country's vulnerability to an economic blockade in case of war. At present, Switzerland maintains 20% of its population in agricultural pursuits only by costly protection.

Nevertheless, with the proper safeguards, the Swiss desire to enter the GATT because it is in line with their interests as a trading nation. Through participation in such programs, the Swiss hope to achieve higher levels of trade, resume substantial exports of capital, and thus assure a high level of employment and a high standard of living.

#### FRANCE

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The French Government is not likely to fall back on inflationary financing to a great extent in the next few months, despite its probable inability to stay within the present military budget, which is somewhat larger than last year's. Later in the year, however, the Government may find that unbudgeted military expenditures, occasioned by MDAP and the operations in Vietnam, call for substantial inflationary financing, as was necessary toward the close of 1949. ECA still intends, however, to press for stricter measures by the French Government to insure financial stability, and is in a position to propose such measures as a condition for its approval of releases from ECA counterpart funds for French public investment. The military budget is likely to be inadequate because sufficient economies to cover the proposed increase in defense production will be difficult to effect, and expenditures connected with the Vietnamese war are likely to rise well beyond the limit presently set for them. These expenditures may well reach at least the amount actually spent in 1949, which was about 30% beyond the budgeted figure.

The Government's prospects for maintaining short-term financial equilibrium are fairly good. The unbudgeted military expenditures will not become a problem during the first half of 1950. Although a general increase in wages is being granted in the nationalized industries, it will probably be held in the neighborhood of 6%, and is likely to be covered by price increases already authorized or now being considered. Over-all Government economies under study since mid-1949 are about to be given official consideration, and tax collections are encouraging. Moreover, the recent sharp

declines in gold prices and in the black market quotation of the dollar both presage a gradual acceptance by private investors of the Government's expected offerings in April of non-inflationary bonds.

- B France will have a brief respite from strike action as the back-to-work movement progresses. Some beneficial effect may be expected from Premier Bidault's recommendation that private industries raise salaries as much beyond the 5% now being granted as possible, without raising prices. Bidault also suggested that private and public enterprises grant production bonuses beginning 1 June. The Government has taken stern measures against disorderly strikers and those in the public utilities who failed to comply with requisition orders issued to insure sufficient supplies of gas and electricity. These repressive measures will, however, increase the dissatisfaction of labor, so that a resurgence of strikes in a few months is likely.

#### FRENCH AND SPANISH NORTH AND WEST AFRICA

- A In French West Africa (FWA) an emerging pattern of intensified Communist penetration is discernible on a lateral line stretching 1600 miles through the geographic center of the territory from southern Niger to the environs of Dakar. Organized Communist activity, which commenced with the founding of the Rassemblement Democratique Africain (RDA) in 1946, has heretofore been concentrated mainly in the Ivory Coast, which is the only center, except for Senegal, where labor is employed to any considerable extent in commercial enterprises. From its Ivory Coast stronghold, the RDA version of Communism was intended to spread eventually throughout FWA, but energetic Government measures since 1948 have more or less sealed it off. It appears that the Communists now recognize the strategic limitations of such an easily accessible focal point, and have chosen a supplementary line of penetration offering greater possibilities for sabotage of military operations.
- The selected area is a marginal strip where the northern limit of the fully habitable portion of West Africa merges gradually into the southern reaches of the arid Sahara. Its peoples are forced to struggle harder for existence than along the southern coast, they are more tenacious and may be more easily persuaded to blame the French for all their misfortunes. North-south movement across the desert

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by land (such as General Leclerc's expedition) or air is largely dependent on the use of the facilities of this strip, which must necessarily be crossed.

The assistant chief of the African section of the French Communist Party recently visited Zinder, Niger, the most important military, trading, and communications center at the eastern end of this fringe zone, and undoubtedly gave instructions for the subversive work among troops and prison guards being carried on there. Farther west at Niamey, the capital of Niger, the recruiting of sympathizers, and probably of militants, is being directed energetically. At smaller outposts and communications relay points, RDA leaders occupying key spots are in a position to control communications.

Abdulla Diallo, influential RDA official who was recently in the USSR, and others, held meetings and made speeches at Thies, rail and road center near Dakar, during January. The oratory was similar to that used in the Ivory Coast when the RDA was being established there. In the middle region, between Thies and Niamey, the western part of Upper Volta has been a hotbed of Communist organization and practices since the establishment of the RDA, and the southern Sudan is the home base of Diallo.

It should be noted that the strip being infiltrated is also the area across which military reinforcements would find it most feasible to move from concentrations of the interior, for example, Ft. Lamy, to the region of Dakar, in case of emergency. Preparations to hinder movement and mobilization along this route would thus appear to be good Communist strategy.

#### ITALY

A Although sporadic local strikes and land seizures will continue in Italy, the Italian Communists will probably shift the focus of their offensive temporarily into the parliamentary arena during the coming weeks. During this period they will attack the Government for various "unconstitutional" acts and proposals, including police violence, anti-labor legislation, and, especially, the extraordinary decrees whereby the Government has empowered the provincial prefects to suspend the right of assembly.

Violent scenes in Parliament similar to those which occurred after the Modena incident are probable. The

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Communists will launch Parliamentary debate, not with any expectation of securing any of their major demands, but to lay the propaganda basis for renewed public disturbances. By this policy of alternating violent direct action with parliamentary attacks, the Communists probably hope to whip-saw the Government, and keep the country in a state of ferment.

Besides the immediate objectives of discrediting Italy in US eyes as a stable ally, and of destroying confidence in IDAP in Italy and hindering its effective implementation, the Communists hope to inhibit the economic and social progress which would remove the popular bases of Communist strength.

B The Italian Government will face grave and perhaps insurmountable difficulties in its efforts to attract private capital, particularly from the US, into sectors of the Italian economy where it is most needed. Italy may therefore be expected to devote itself increasingly to securing aid from the US under Point IV or other post-ERP plans. Despite the help of ERP, Italy will probably be unable for some time to generate enough capital to finance adequately the long-range improvements in the economy which are essential to a stable and reasonably democratic Italy.

The basic obstacle to attracting private investment, either domestic or foreign, is fear of war or a Communist coup. It is questionable whether any guarantees to private capital would allay these basic fears and attract sufficient amounts of private foreign investment into those sectors of the economy where it is most needed. Such sectors include the thermo-electric, textile, food processing, and light mechanical industries, and, in southern Italy, agriculture and industry generally. These sectors offer only a long-range and modest yield.

No doubt the present Communist offensive is intended to accentuate the fears of investors, perpetuate the Italian investment quandry, and preserve the conditions of unemployment and agrarian unrest.

Now, substantial private investments can thus probably be attracted into Italian enterprises only after the Government has created the basically healthy political and economic atmosphere prerequisite to bold investment.

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SPAIN

B        Reports of secret trade agreements between Spain and Eastern Europe are probably inspired in part by the Franco Government itself to increase pressure on the US for aid to Spain. Nevertheless, allusions in the Spanish press to the possibilities of trade with the Soviet bloc indicate the real interest of the regime in such trade for economic reasons, and the desire to prepare public opinion at home for its further development. Small-scale commerce between Spain and the Soviet Satellites has been carried on since World War II largely through third countries, such as Sweden, Switzerland, and the Netherlands. Reports of an official trade agreement discussion with the USSR, however, have no known basis in fact, other than attempts of the Spanish Government to promote the barter, chiefly through private trade channels, of Spanish manufactured goods, minerals and food in exchange for wheat, cotton and other raw materials. One shipment of Polish coal has recently been delivered. No details of this transaction are yet known but it is alleged that trade worth 350 million pesetas is provided for. A firm headed by Nicolas Franco, the Generalissimo's brother and Ambassador to Portugal, has been granted licenses for the export to Eastern Europe of Spanish goods valued at 93 million pesetas, and for importation from that area of an equal amount in manufactures and raw materials. The bulk of this trade is to be conducted by Dutch firms, and shipments on a small scale have already begun. Even if this plan is successful, the volume of trade is too small to benefit the Spanish economy materially, and, in fact, a large part of the imported goods is likely to get into the black market.

Because of the serious economic situation the Franco Government will seek trade advantages wherever possible. The development of any large commerce, however, or the negotiation of a formal trade agreement, with the Soviet area does not appear likely at this time because of Spain's limited offerings and the political inconvenience to both sides inherent in direct relations.

B        Exiled leaders of the Monarchist-Socialist coalition that opposes the Franco regime are personally propagating their vigorous denial of the recent State Department assertion that no viable alternative to the Franco regime is in sight. Don Juan and his chief advisers, including the Duke of Alba, took up the question

of an alternative regime at the Vatican during a Holy Year visit made last week. Representing the Catholic opposition in general, Jose Antonio Aguirre, president of the Basque Government-in-exile, has been active in New York and Washington, and has conferred with political leaders in Havana and Caracas. At the same time Trifon Gomez, president of the UGT, labor arm of the Spanish Socialist party, and Secretary-General of the International Federation of Transport Workers, has renewed his contacts with US and European labor leaders.

The primary object of the approaches to US citizens is to stimulate resistance to proposals of US economic aid for the Franco Government. In his Vatican visit, Don Juan requested that the Papal Nuncios, especially in the US and Latin America, be instructed to maintain a "more neutral" attitude with regard to the Spanish question. The Pope's scrupulous personal "neutrality" was indicated by the fact that he received members of Don Juan's entourage in more than one personal audience.

The Don Juan Monarchists and the Socialist strategists still firmly believe that in the absence of large-scale foreign aid, Franco's position will become untenable because of the compounding of the nation's severe economic problems. Because of the enormous police power of the regime, they do not intend at present to develop an opposition force beyond the skeleton group now existing inside Spain as the Comite Interior de Coordinacion. They are confident that this group could rally a large following in short order, upon the lifting of press and police restrictions. Their expectation is that Franco will be forced to invite Don Juan to rule, and that the strength of the coalition will appear when that time comes. The coalition is undoubtedly correct in its estimate of Franco's power and will to suppress any effort to expand the coalition's organization in Spain beyond its present size. The coalition has made measurable progress, nevertheless, in clarifying the bases on which its leaders believe the rank and file would unite under free conditions. During his trip to the US, President Aguirre made it known that the Basques will support the coalition, although they are not now a party to it.

#### PORTUGAL

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In an effort to delay any action on the future status of Portuguese India, the Portuguese Government has refused to discuss this question with Indian officials on the grounds that Portugal has no constitutional authority "to negotiate

its sovereignty". This refusal was made orally after the Indian Minister in Lisbon sent a communication to the Portuguese Government regarding the future status of Goa and other Portuguese possessions in India. Presumably, a Portuguese note will follow. Although the contents of the Indian communication have not been disclosed, Prime Minister Nehru, in a speech before the Indian Parliament early in February, declared that as far as the Indian Government was concerned, Goa must revert to India. Semi-official press agencies in Portugal have been endeavoring to reassure the sensitive public that there would be no encroachment on Portuguese sovereignty, and to enlist world opinion in support of Portugal. Although the Government apparently intends to delay as long as possible any discussions of possible Portuguese withdrawal in India, Dr. Salazar some time ago indicated that he did not discount the possibility of the eventual loss of these possessions.

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